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Bache, Jules Semon

A practical tax in lieu of confiscation

[S.l.]

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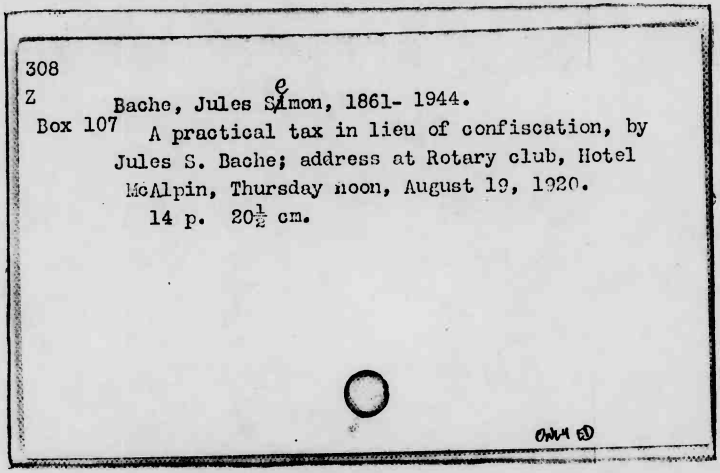
308
Z Bache, Jules Simon, 1861- 1944.
Box 107 A practical tax in lieu of confiscation, by Jules S. Bache; address at Rotary club, Hotel McAlpin, Thursday noon, August 19, 1920.
14 p. 20½ cm.

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A Practical Tax in Lieu of Confiscation

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Box 107

By

JULES S. BACHE

Address at

ROTARY CLUB

Hotel McAlpin, Thursday Noon, August 19, 1920

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A Practical Tax in Lieu of Confiscation

IF the financial structure of the world is to be maintained at all, and complete collapse avoided, the ideas heretofore held in regard to taxation will have to be entirely reconstructed, and a new basis arived at, not only in this country, but throughout the world.

There are certain theorists, who, having made some study of taxation, speak of the "Science of Taxation." One may as well speak of the "Science of Tuberculosis." For taxation is a disease and a scourge, such as any other that afflicts the human race.

As long as the amounts taken by the various governments in the form of taxes were reasonably small, they could be ignored, just as tuberculosis was ignored, until it had become a scourge which threatened a great percentage of the people.

The very initiation of taxes in their present form was wrong, and almost criminal. Scientists in taxes tell us that taxes should be levied on sources best able to pay, and this was the theory put into practice by the robber barons of the middle ages, who sallied out upon the high road, and took from those who, by industry, energy and economy had accumulated wealth.

The taxing situation in this country is at this moment exactly where the railroad situation was under government operation, in that under government operation, always at a loss, the loss was made up by increasing the burdens of the four or five hundred thousand people who pay taxes, leaving the balance of the nation to use the railroads on unremunerative terms.

When the Congress of the United States in enacting the Cummins Bill, decided that the entire nation, through increased rates, should pay, each one, his fair share of the upkeep of these properties, it enacted a policy, in my opinion, that should apply equaly in taxation.

Instead of, as at present, the upkeep of the Government and the administration of its debt being virtually paid for by the four or five hundred thousand taxpayers, it should be the policy of the country that every one enjoying the protection of the Government should pay in equal proportion toward the expenses of that protection.

One could argue that they are doing so now, since every component part of the community is a consumer, and all consumption is paying, and paying even in an exaggerated amount through the excess percentages of profit added on all goods—and added in practically every instance, so heavily, and in so much greater proportion than the returns received by the Government warrants. But it is only these unfortunate results of this method of general contribution which compel us to stop and seriously regard the final results of the present system, if allowed to continue.

The difference between the effects of the turn-over or sales tax, and the present excess profits tax is that the turn-over tax fixes a small percentage which every one shall pay, and know that he is paying, while the excess profits tax, though seemingly paid only by those who make profits, is really passed on in enlarged form, and spread over consumption of every kind.

I have little patience with the scientist in taxation who demurs at taxing "The Workingman's Breakfast Table," but thinks it all right to throttle the capital that would furnish the work, which provides the breakfast. If the present system of

taxation continues, the breakfast of the workingman will have little in it to pay taxes on, since capital, which furnishes the wages, will be driven off.

What Is a Turn-over Tax?

If we can all agree that the moment has come to formulate an entirely new policy of raising revenues, we must first decide on what the new policy shall be. By no means do I claim that the turn-over tax is the panacea, but until something better is proposed, I declare that it is the one on which all to whom the present tax evils are brought home should unite, and make a determined effort to test, and after results have been obtained, decide whether or not there is anything better.

It is not entirely a new departure. After the Civil War in this country, a sales tax was imposed for revenue requirements, and proved so succesful that it was continued for a time even after the necessity for it had disappeared. Canada has recently enacted a form of sales tax, and the new French tax law includes a tax on practically all turn-over, similar in its incidence to the sales tax which I am speaking in favor of. In France the tax is to be one and one-tenth percent, and became operative on July first of this year. It is estimated that this tax will produce five billion, five hundred million francs in revenue. This, at the par of Exchange, would be about one billion, one hundred million dollars. The French tax has some exemptions, and an increased rate on some luxuries, but is practically what we should adopt over here.

Incidentally, the French Commission here states that the excess profits tax, established by the French law of July, 1916, was abolished on the 30th of June of this year.

I am not here to state definitely just how far

this tax ought to go. I recognize that there are many transactions upon which no tax can be levied. I recognize that there are many turn-overs which cannot be reached by the tax-gatherer. We cannot expect the newsboy, the peanut-vender or the peddler to make returns, and it is as well legally to exempt them, as to make them tax-dodgers.

I should, therefore, start with the basis that all turn-overs should pay a tax of 1%, but where the turn-overs of any one individual or other unit be less than a sum, which can be fixed at, say, $300 per month, exemption should be granted.

I have fixed the exemption by the month, instead of by the year, as I believe that the tax should be collected monthly, thus creating as little disturbance as possible in the money market, but I hope it would not be contemplated in the enactment of the tax that a final statement need be made by the payer more than once a year, accompanied by the proper affidavit, and the last payment could bring the corrected tax up to date.

There are other transactions, such as speculative ones in grain, merchandise, coffees, teas, metals or securities, either in futures or for cash, which rarely net more than a 1% profit and which must necessarily be taxed in another way. In the French law, in all such operations, the commissions received are taxed 1%.

I admit that it may be found in the final inauguration of this tax that other cases will be met with where exemption may prove necessary, but I believe that a 1% tax on turn-over, no matter how great the necessary exemptions may be, will result in raising two-thirds of the money necessary for the maintenance of the Government of this country, for the paying of interest on its debt and the reasonable redemption of that debt. What is needed above that can be raised by a levy on incomes above $10,000, and without making the burden on those incomes so great as to impair their usefulness to enterprise or even drive them under the umbrella of municipal investments.

Effect of the Tax on Living Cost and Labor:

I believe that the taxes of this country in their present form are in a great measure responsible for the high living cost, and the restiveness of labor. While it must be admitted that high prices can in the main be traced to other causes than that of taxation, yet there can be no doubt that, owing to the uncertainties and the amounts of the present taxes, the passing on of arbitrary additions to prices of commodities by each dealer in turn, through whose hands the commodities pass, is largely the cause of the high cost of living, since the ultimate consumer must bear the brunt of the successive additions. Labor disaffection, as a further consequence, must likewise arise from the same cause, since labor is the greatest sufferer.

It seems to me to be self-evident that with a tax of 1% on turn-over, no such exaggerated condition can arise, since each merchant will know definitely how much he will have to pay, and can be guided accordingly, and, not, as at present, have to guess at what he *may* have to pay, when fixing his prices.

Will the Farmer Pay His Tax?

One of the stock arguments against this tax is the necessity of levying it on the products of the farm. An exemption of $300 per month would exempt the small farmer. To the farmer who sells more than that amount a month I put the question as to whether he would rather, as under the present system, have 40% arbitrarily added to everything he buys, than pay 1% on everything that he sells. It would not take him long to cal-

culate which is to his advantage, and my answer is that the farmer will be found to be among the greatest advocates of the tax. In putting the question as to whether he would rather pay the 1% on everything that he sells than 40% on everything that he buys, I arbitrarily fix the amount that he pays at 40%, for the reason that this is the maximum amount levied under the present excess profits tax.

No merchant or manufacturer can tell at the commencement of his season how much goods he will sell, nor how much he will make on the sale of those goods. But he is a poor merchant if he does not contemplate the worst that can happen to him, which is a 40% tax, and he is going to add that amount from the start, so that no matter what the final result may be, he will not be the loser. Therefore, I repeat that the problem to the farmer is whether he is to pay 40% on what he buys, or 1% on what he sells.

Cost of Collection and Uncertainties of Result:

I do not believe that any correct estimate of the cost of collection of the tax of any one year, as at present levied, can be made. We have an army of experts still digging into taxes three years old, whose salaries are being paid out of this year's expenses. But the proposed tax, if properly administered, would be collected practically automatically, and be entirely a matter of bookkeeping. The experts can then be put into the discard.

Every man can decide for himself, since his books will show what his turn-over has been, and can send in his check monthly, and close the chapter. Furthermore, I do not believe that over fifty per cent. of those who make returns at present will be involved in the turn-over tax per se.

With the closing of his books at the end of a

fiscal year, under this system, the merchant or corporation would know what the tax has been to a cent, and need not keep the account open. Today, there are many business concerns whose taxes have not been finally adjudicated for two or three years back, and money has been paid out as dividends which the tax collector may turn up and claim for his own.

With the new tax, the ordinary bookkeeper of every business house can calculate the tax. No need to employ the services of so-called experts, legal advisers and accountants, which every business man has to do at present, because his own staff or he himself are unable to solve the intricacies of the present law.

The highly-paid specialist in ways of reducing the burden of the taxpayer would disappear. The Government would get its full tax, instead of the minimum, and there are many ways by which practical protection can be secured for the Government without the inquisitorial methods now being employed.

Under the present system, while highly inquisitorial, tax evasions are made possible by the very complications of the sytem, and even for those who scrupulously desire to pay their taxes, it is frequently difficult not to omit some items, and where doubt in the matter exists, it is only human nature for the taxpayer to give himself the benefit of it.

The results for the Government under the present system will become more and more difficult to gauge. In the event of a severe reaction in business, the excess profits tax would probably produce very little. At all events, the fluctuation in its return would be at all times marked, and difficult to foresee in advance.

It is unlikely that there would be in any one year a fluctuation of more than 10% in the turn-over tax, and in adopting the budget system,

which it is to be hoped the Republican Congress will enact into law very early in the coming administration, it is important to know the amounts with which the budget has to deal.

Another great advantage of the turn-over tax is that it can be instituted independently of any other taxation, and after it has been allowed to function for six months, its results can be gauged for the year almost to a certainty. Then the taxes on income could be reduced, and in time, when the tax upon income has reached a point where it is no longer excessive, the turn-over tax can then likewise be reduced upon actual experience, and not upon guess work.

Direct Loss to Enterprise by Virtual Confiscation of Large Incomes:

The owners of large fortunes, now practically exempt from Federal taxation by dint of municipal investments, would pay at least 1% on their yearly expenditures. Believing, as I do, that the maximum supertax on income need not go over 25%, the incentive to large fortunes to withdraw from all enterprise, and invest in municipal bonds, would disappear. A new market would develop for securities of industrial enterprises. The promoter, the investor, the young man starting in business, would again find sources of support in people whose incomes exceeded their annual expenditures, and to whom the incentive to add to their incomes would be reopened by the removal of the confiscatory imposts of the present system.

Tax Dodging:

Under the present system, it seems to be the one effort of the taxpayer to take advantage of every loophole contained in the law, in order to pay as small a tax as possible.

No one seems to appreciate that the avoidance of his just share of the taxes by each taxpayer

merely adds to the burden of his neighbor. I doubt that any of you will dispute the statement that even the enormous amount now being raised by taxes in this country would be less of a burden if everyone who should pay taxes paid his full share.

Even the present system, iniquitous as I consider it, would probably not be very burdensome if everyone paid equitably and equally. But he must be optimistic indeed who would believe that everyone will voluntarily pay his full share. I do not believe that under any system everyone can be *compelled* to pay his share, but I do believe that under the turn-over tax everyone will cheerfully pay his share, or where he does not pay, it will only be because he is legally exempt.

Every business man will be able to look both his neighbor and the tax gatherer in the face, and feel that he is under no suspicion. Instead of wasting time studying methods of evading taxes, it will be found that the business community will have gained time to increase its activities, and cheerfully pay the increased taxes which those activities will bring upon them.

The discontented will have one less topic to find fault with. The unwilling contributor will have one less excuse to offer for evading his contribution. A dark cloud will have been removed from the business horizon, one more burden taken from the shoulders of the struggling business man, and an example will have been set that the entire financial world might in the end follow, to its great benefit.

Copy of Letter Written by Jules S. Bache at Request of the Editor of the New York Evening Post for Comment on Prof. T. S. Adams' Saving Tax Proposal as Against a Tax on Gross Sales

New York, August 17, 1920.

To the Editor of
The New York Evening Post,
New York City.
Sir:

When a great corporation is called upon to raise the necessary funds for the maintenance of its business, it does not have recourse to its scientific experts, but immediately calls in its financial staff, and, if necessary, practical financiers and businessmen.

The United States Government is, if anything, a huge business organization, which, if it is to be successfully run, should be run on business lines, and by practical business men. My one answer to the propaganda of Professor Adams, who signs himself as "Chairman of the Tax Advisory Board of the United States Treasury Department," which seems to prefer scientific experts to practical businessmen in financing its business, is that I must necessarily be more tolerant than he is to be willing even to discuss his tax.

In his brochure entitled "Equable Tax on Savings, Offered as a Remedy for Present Troubles," at the beginning of his second paragraph, he states: "Both proposals (for 'no change' or a 'sales tax') are so indefensible that they can be explained only on the ground of thoughtlessness."

If I were to permit myself to be as intolerant

as the Professor, I would simply declare his scheme "indefensible," and close with that.

The difficulty of the situation is that the professor appreciates the question of taxation on an academic basis, and refuses to recognize the practical. I say that because he dares to denounce as indefensible a system of taxation just adopted by the French nation as the only method by which the enormous taxes which they are compelled to raise can be raised, without destroying their entire business fabric.

We have had this same situation in the past when any great innovation was attempted. We have always found scientists to find fault with one side or the other of any innovation; not that the Sales Tax is an innovation, and not that it has ever been a failure when inaugurated.

I state in as positive terms as the Professor himself could possibly use, that the entire successful future of the United States as a commercial nation is dependent upon the adoption of the turnover, or Sales Tax, in lieu of all present excessive taxes; but I am willing to add that if the Professor's views are to prevail, and the present system of taxation is maintained, that his substitute of a moderate levy on undistributed profits is a step in the right direction, although I feel very positive that no matter how many steps are taken in the right direction, if they stop short of the complete discard of the whole present system, nothing will prevent the final collapse of enterprise in this country, and, for that matter, in the world.

The burden of taxation has become too great to have the question handled only in an academic way. I am persuaded that any number of academicians can be found, or could be found up to very recently, to argue in favor of the Bolshevistic theories. Theoretically, Bolshevism might be argued into existence; in fact, it has been;

but all world-citizens of open minds have long ere this become convinced that practically it cannot be made to work, and that if allowed to burn itself out its collapse is certain.

In the same way I am convinced that the theories of the taxing specialists and scientists, if allowed to work themselves out, are bound to collapse, and should be quite content to wait on the side lines and watch the process, if Rome were not burning while Nero fiddled.

The magnificent commercial structure of the United States, built up by a century of progressive and aggressive business methods of American businessmen, is being ground to the dust by the burden of taxation, even if scientifically, though impractically applied; and yet patriotic citizens of both persuasions stand arguing the pros and cons of their several views, without having the courage at least to give the practical a trial, instead of calling it indefensible.

I admit that this communication has dwelt but lightly on the question of a substitute for the Excess Profits Tax, suggested by the Professor, and referred to me by you, but it is practically the only way in which I can look at the whole situation.

I am,

Yours very truly,

(Signed) JULES S. BACHE.

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